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TORONTO: THE STATE OF THE REGIONAL ECONOMY

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INTRODUCTION

When Toronto figures in the news these days, it is usually as an object of scorn or envy. The current recession, which has come about largely as the result of Ottawa's policy of high interest rates and a high Canadian dollar, is routinely blamed on Toronto. The argument is that all this hardship was necessary to cool down the overheated economy of "Central Canada" (a euphemism for Toronto) by slowing inflation there. Rarely, however, has Toronto been given credit for the country's economic successes, or appreciated for the key productive role that it plays in our national economy.

Despite obvious past successes, there are recent signs of economic distress within the region. And yet there is no single government entity responsible for monitoring and responding to changes in the economic fortunes of this region as an integrated whole. In functional terms, the region is obviously larger than any one of the individual municipal or regional governments in the area, but smaller than the next largest level — the Province. Nevertheless, in order to understand the workings and future of the Toronto economy as an integrated entity, it must be approached regionally. Therefore, the purpose of this paper is to analyse the state of Toronto's economy from this regional perspective.

The paper is divided into three major sections:

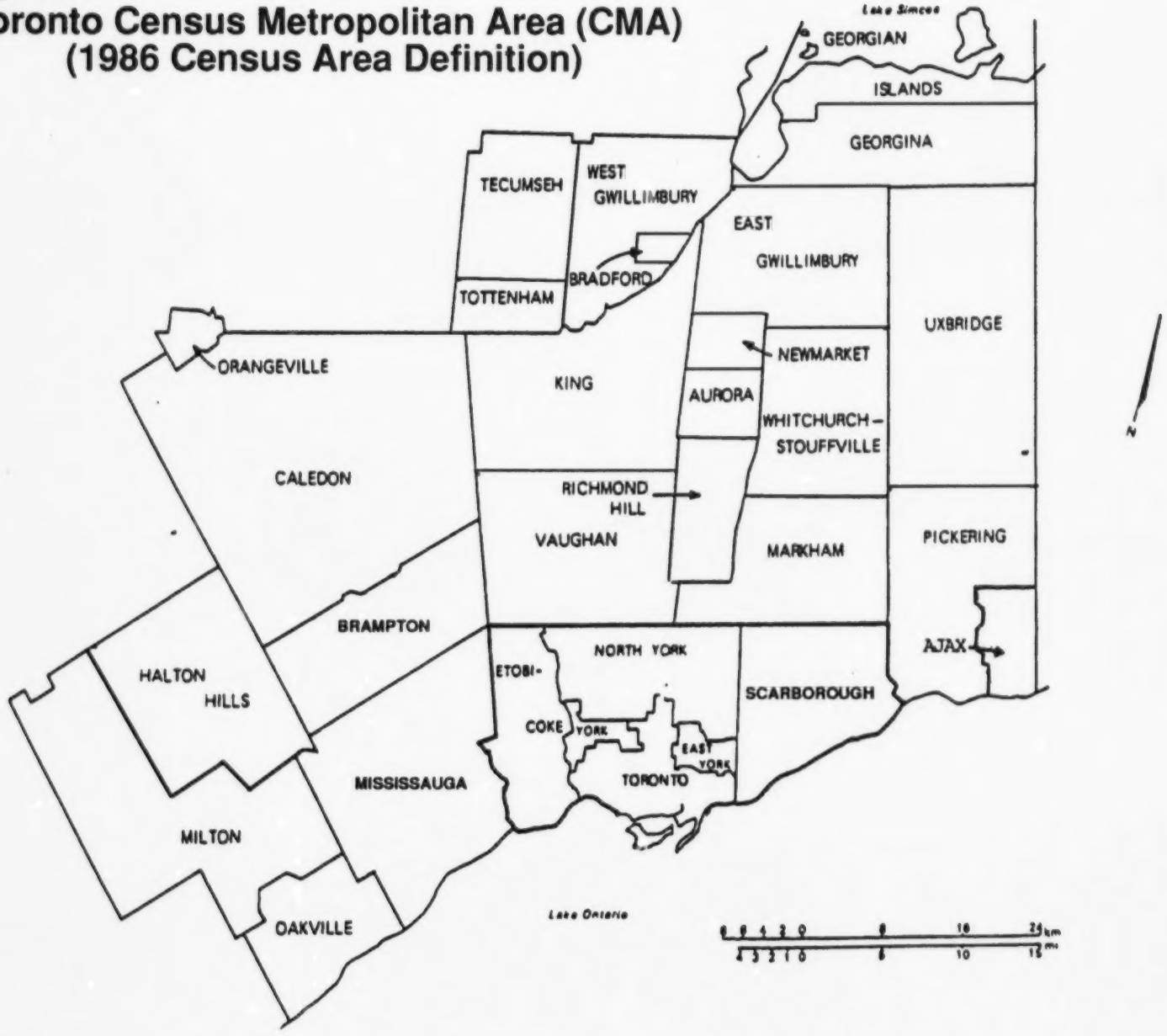
Part I outlines the major structural changes that have characterized the region in the past two decades or so and considers the changing sectoral, occupational, and spatial structures of employment, as well as recent trends in investment, unemployment, output, and income. One objective of this analysis is to identify the engines that have driven past economic growth in the region.

Part II examines current challenges to the economic health of the region, and attempts to suggest the forces (of local, national, and international origin) that currently act on key sectors of the regional economy. The intent of this part is to get at least a broad sense of possible future patterns of development.

Part III raises what I feel are the major challenges facing governments as they go about fashioning a strategy to deal with present and anticipated economic conditions in the region: there is a need to fundamentally realign our way of thinking about economic growth and government's role in fostering it.

Figure 1

Toronto Census Metropolitan Area (CMA) (1986 Census Area Definition)



I. THE PAST: STRUCTURAL CHANGES IN THE TORONTO ECONOMY

The analysis that follows uses Statistics Canada's concept of the Census Metropolitan Area (CMA; see Figure 1) as a convenient representation of the Toronto region. While the area is defined broadly enough to capture most of the economic activity centred in Toronto, it should be noted that, in fact, it excludes everything east of Ajax and west of Oakville. Hence, a reader who considers Burlington or Oshawa rightfully part of the Toronto economy may find that the analysis being presented slightly underestimates the size of the economic entity and its importance to the Province and the nation.

In trying to document the state of the regional economy, it is important first to set it within its national context:

- The Toronto CMA's 1990 population of 3.65 million makes it the most populous urban area in Canada, accounting for 13.8 per cent of Canada's population (approximately one in seven Canadians lives in this region).

- The total income earned of nearly $79 billion in 1990 gave the CMA more than 17 per cent of the country's total income and its per capita income of $21,639 was some 25 per cent higher than the national average for that year.

- While roughly one in seven Canadians calls the Toronto CMA their home, the region retained between one in five and one in six jobs in Canada in the 1980s (Table 1).

- In the financial services industries, Toronto's share of national employment approaches one in four jobs, and in manufacturing, approximately one in five jobs is to be found in the CMA. Therefore, the Toronto region's importance as a source of employment for the nation outstrips even its sizeable share of national population and (in some sectors) income.

Table 1.

Toronto CMA Employment as a Per Cent Share of Canada's Employment

	1975	1982	1989
Manufacturing	18.7	19.6	19.0
Construction	15.9	15.8	16.7
TCU[1]	12.2	13.7	15.6
Trade	19.8	20.2	14.3
FIRE[2]	26.7	26.9	23.6
CBP Services[3]	23.2	24.5	15.9
Total	**18.1**	**20.0**	**16.8**

Source: Labour Force Survey

1. TCU = Transportation, Communications, and Utilities
2. FIRE = Finance, Insurance, and Real Estate
3. CBP = Community, Business, and Personal Services

Table 2.

Numbers Employed and Growth Rates by Industry for the Toronto CMA ('000)

	1976	1983	1990	% Change 1976-1990	% Change 1983-1990	Peak Employment	(& Year)
All Industries*	1,330.4	1,559.6	1,919.9	43.3%	23.1	1,919.9	(1990)
Manufacturing	342.1	380.4	380.6	11.3	0.1	434.9	(1981)
Durable	181.9	204.1	193.1	6.2	-5.4	226.0	(1981)
Non-Durable	160.1	176.3	179.7	12.2	1.9	209.7	(1987)
Construction	82.7	77.2	118.3	43.0	53.2	127.9	(1989)
TCU	108.5	116.0	144.0	32.7	24.1	150.3	(1989)
Trade	237.8	268.8	337.9	42.1	25.7	337.9	(1990)
FIRE	108.8	134.4	188.7	73.4	40.4	189.5	(1990)
CBP Services	375.6	509.2	654.8	74.3	28.6	660.4	(1989)
Public Admin.	74.9	73.6	95.7	27.7	30.0	96.0	(1989)

Source: Labour Force Survey

* Excludes a very small number of employees in primary activites

In fact, the region has served as Canada's pre-eminent job-producing machine over the past 15 years (Table 2):

- While total employment grew by an impressive 43 per cent between 1976 and 1990, growth rates in excess of 70 per cent occurred in community, business, and personal services, and in finance, insurance, and real estate (FIRE) (Figure 2).

- Manufacturing employment growth lagged far behind all other local sectors, and appears not to have recovered to the levels it enjoyed prior to the 1982 recession. This sector's employment peaked in 1981 at close to 435,000, and figures for 1990 actually represent a decline of 12.5 per cent from 1981.

- In the recovery phase since the last recession (1983-1990), manufacturing employment grew almost imperceptibly (Figure 3). A modest increase in production of non-durables (food and beverages, printing and publishing, clothing, chemicals, and paper products) was accompanied by an employment loss of more than five per cent in durable goods industries (transportation equipment, fabricated metal products, electrical and electronic products, machinery, plastic products, and furniture).

- In this seven-year period, the fastest-growing sectors were construction, FIRE, and public administration, with all of the service sectors posting above-average growth rates and peaking in 1989 or 1990.

The pattern of buoyant service employment growth with slow or stagnant manufacturing employment growth is also reflected in the changing sectoral mix of employment in the Toronto CMA:

- In 1911, and again in 1941 and 1951, manufacturing had provided as much as 35 per cent of the region's employment.[1] However, by 1976 that figure had fallen to just over 25 per cent (Table 3 and Figure 4), and

Figure 2

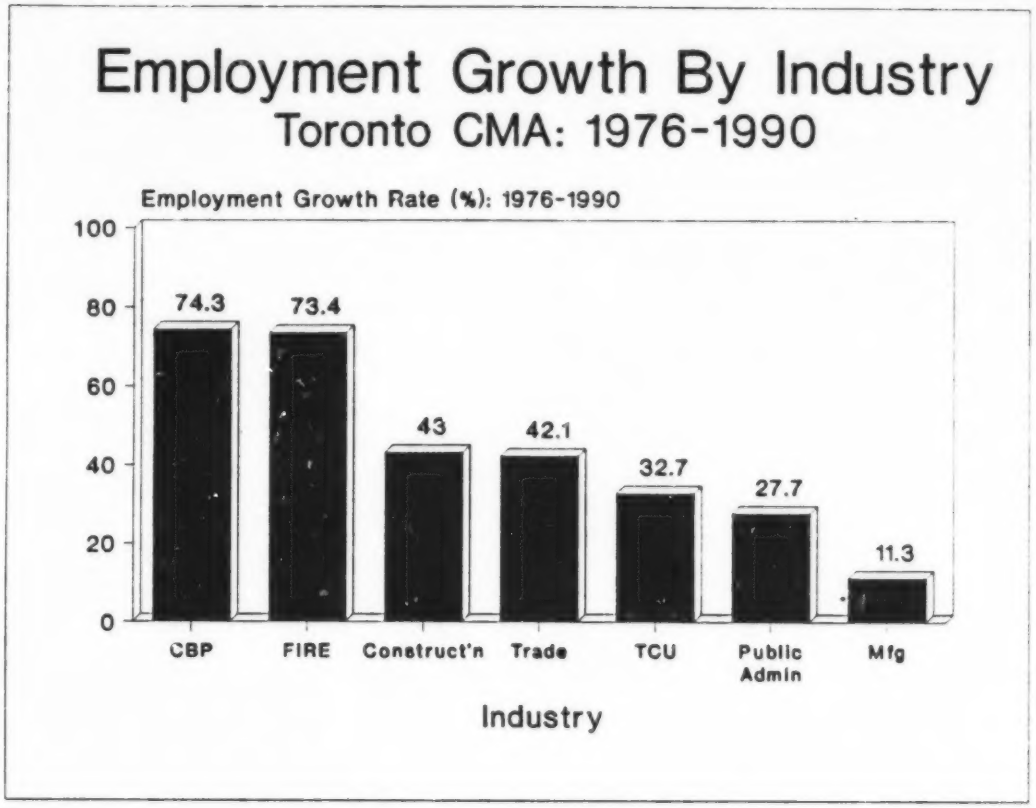


Figure 3

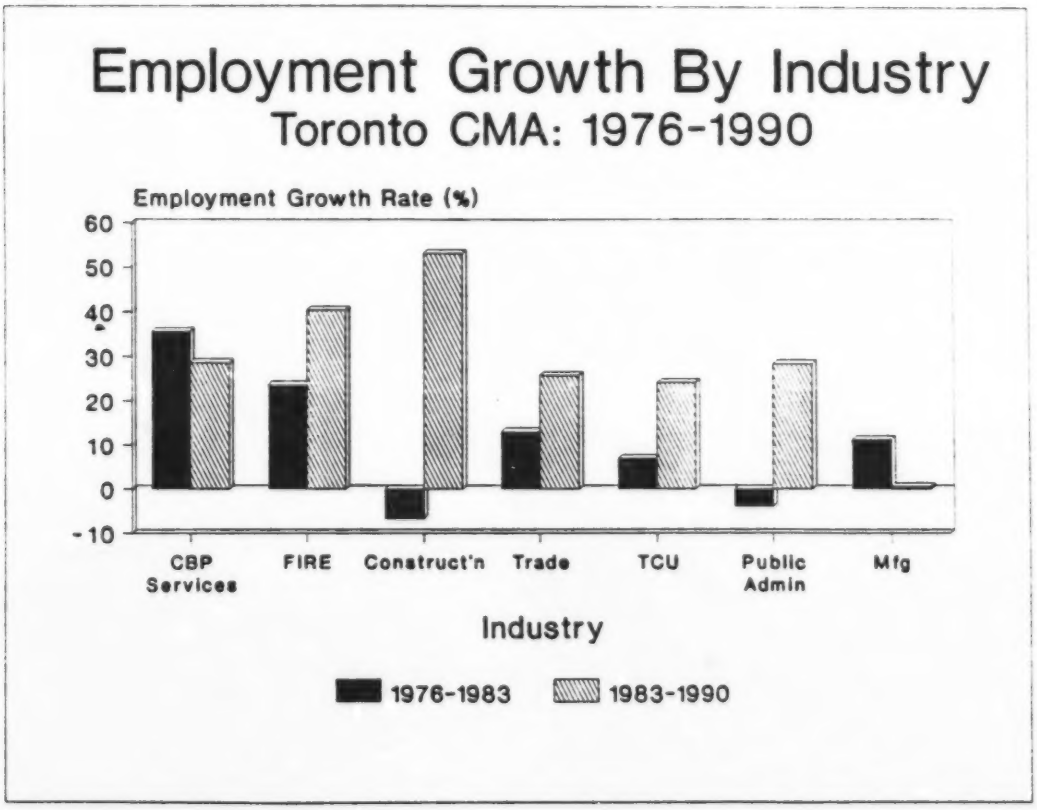


Figure 4

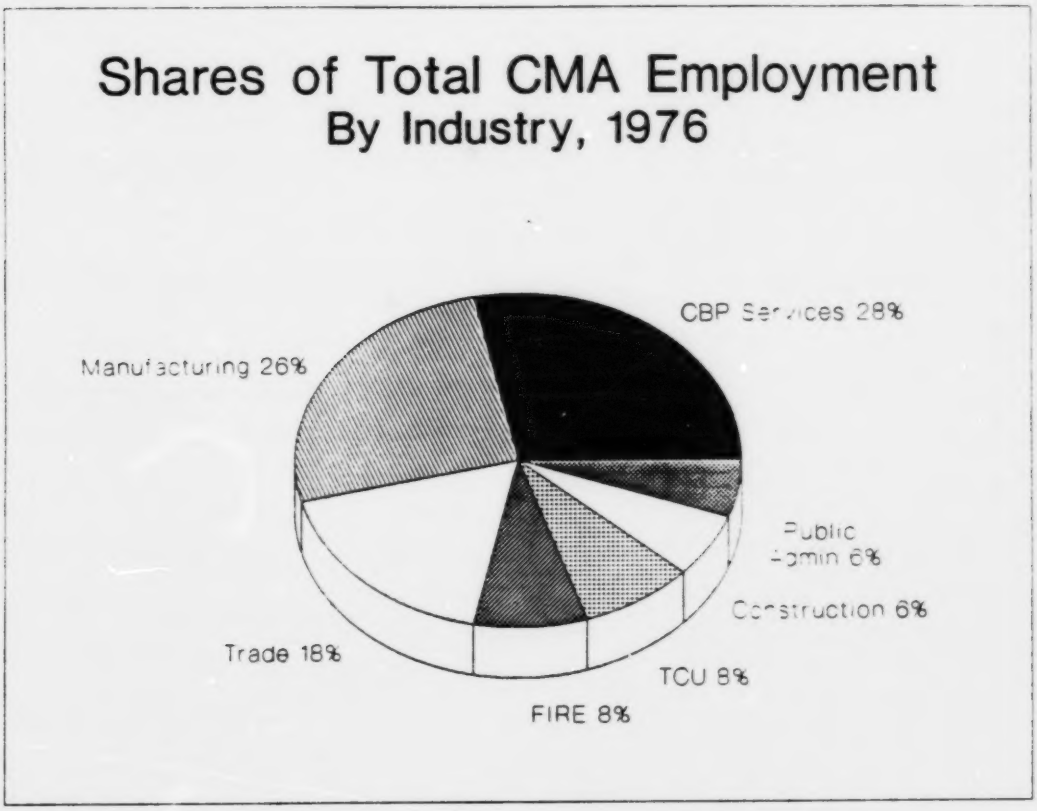


Figure 5

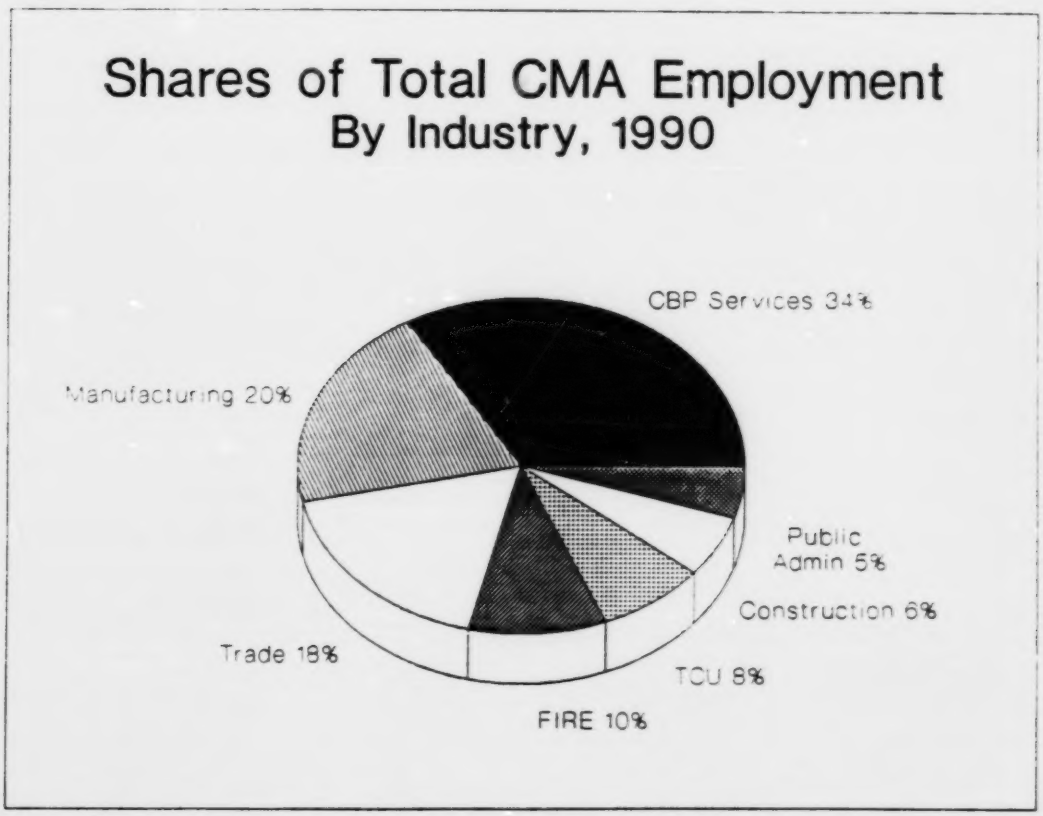


Table 3.

Shares of Total Employment by Industry for the Toronto CMA

	1976	1983	1990
All Industries	100.0%	100.0%	100.0%
Manufacturing	25.7	24.4	19.8
Durable	13.7	13.1	10.1
Non-Durable	12.0	11.3	9.4
Construction	6.2	4.9	6.2
TCU	8.2	7.4	7.5
Trade	17.9	17.2	17.6
FIRE	8.2	8.6	9.8
CBP Services	28.2	32.6	34.1
Public Admin.	5.6	4.7	5.0

Source: Labour Force Survey

Table 4.

Shares of Total (Non-Primary) Employment, 1990

	Toronto CMA	Ontario*	Canada*	Toronto: Canada
Manufacturing	19.8	19.7	16.5	1.20
Durable	10.1	8.7	8.3	1.22
Non-Durable	9.4	11.0	8.2	1.15
Construction	6.2	6.5	6.5	.95
TCU	7.5	6.9	8.0	.94
Trade	17.6	18.4	19.3	.91
FIRE	9.8	7.2	6.5	1.51
CBP Services	34.1	35.0	36.4	.94
Public Admin.	5.0	6.3	6.8	.74
Total	**100.0**	**100.0**	**100.0**	

Source: Labour Force Survey, Catalogue 71-001 and unpublished figures, City of Toronto

* Figures are for fourth quarter of 1990.

by 1990 only one in five workers found a job in manufacturing (Figure 5. Instead, more than one-third of workers are currently employed in community, business, or personal services.

- Despite their meteoric rate of growth, financial services still employ fewer than one in ten Torontonians.

- Retail and wholesale trade's share of regional employment has been remarkably stable over this period (and James Lemon documents that this sector's share — between 16 and 19 per cent — has changed little since 1911).[2]

Lest one get the impression that manufacturing has been languishing in the Toronto region in the last 15 years, it should be emphasized that the region remains a major national force in this sector. As Table 4 shows, Toronto is more highly specialized in manufacturing than either Ontario as a whole or the entire country, and this is especially so in durable goods industries. Seen in this light, FIRE stands out as the only other sector in which Toronto appears to be more highly specialized than the rest of the country (Figure 6). It turns out that the major growth in non-financial services employment merely mirrors a national phenomenon of service sector growth.

There is further evidence of the Toronto region's sustained prowess in manufacturing. As documented in Table 5, producers in the CMA have — apart from recessionary lapses — continued to commit an increasing amount of capital each year for investment in plant, machinery, and equipment. Furthermore, after 1970, the region's share of national annual investment in manufacturing rose to eclipse Montreal as a destination for investment capital (Figure 7). In fact, the post-recession 1980s witnessed an investment boom of major proportions, which peaked in 1986. Thereafter, annual investment (in 1971 dollars) began to decline to the point where Toronto's share of national investment in 1989 returned to a level reminiscent of the early 1980s. Judging by this, as well as by manufacturers' investment

Table 5.

Annual Private Investment Expenditures in Toronto CMA (Manufacturing), 1950-1990

	Toronto CMA (millions of dollars)		Toronto	Toronto	Montreal
	Current $	Constant (1971) $	Ontario	Canada	Canada
1950	74.0	123.2	.234	.102	.125
1955	135.3	225.4	.224	.098	.138
1960	152.7	211.9	.182	.086	.127
1965*	369.9	403.9	.224	.113	.078
1970	444.8	456.6	.191	.096	.096
1975*	846.5	587.4	.210	.109	.079
1980*	1,618.1	683.5	.251	.123	.076
1981	1,824.3	682.5	.245	.108	.055
1982	1,627.2	560.7	.257	.103	.053
1983	1,490.0	474.6	.261	.113	.058
1984	1,956.3	682.7	.282	.134	.080
1985	2,700.0	923.4	.301	.153	.073
1986*	4,034.3	1,320.8	.358	.194	.076
1987	3,796.1	1,176.7	.336	.168	.079
1988	3,687.3	1,094.5	.313	.144	.083
1989**	3,636.2	1,025.9	.297	.128	.077
1990***	3,579.2	961.3	.279	.116	.072

Source: Statistics Canada, Catalogue 61-205 (various years)

* CMA boundaries were expanded in 1961, 1971, 1976, and 1986
** Figures for 1989 are preliminary estimates of actual expenditures.
*** Figures for 1990 are investment intentions.

Figure 6

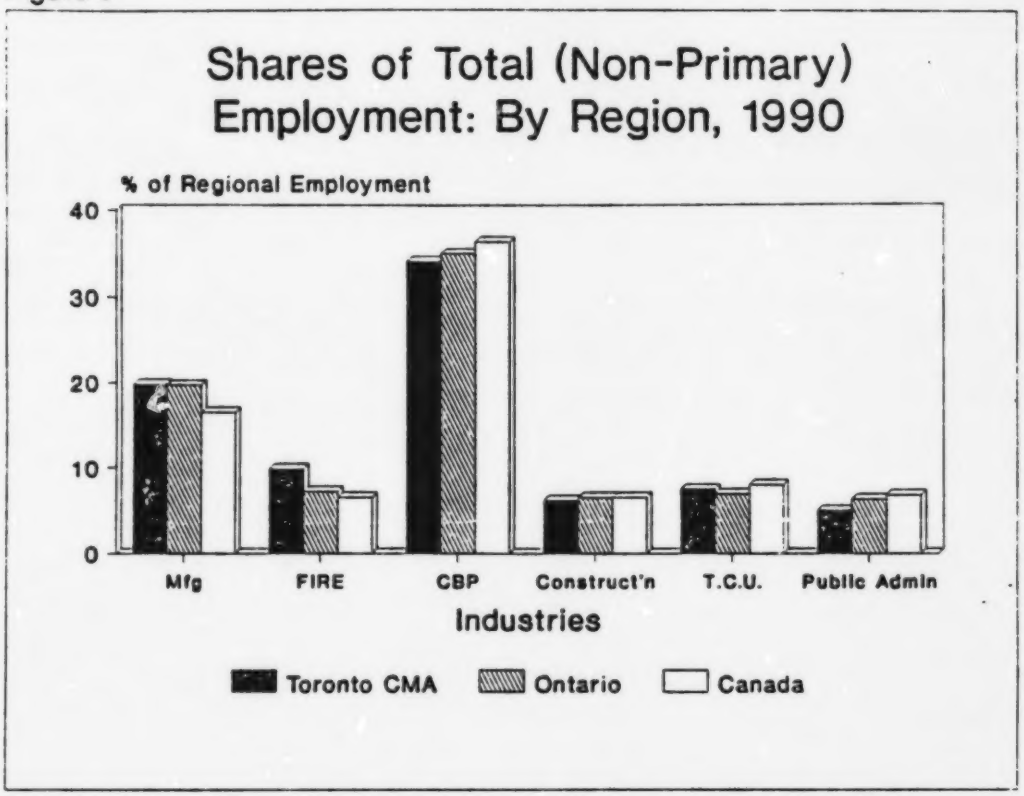
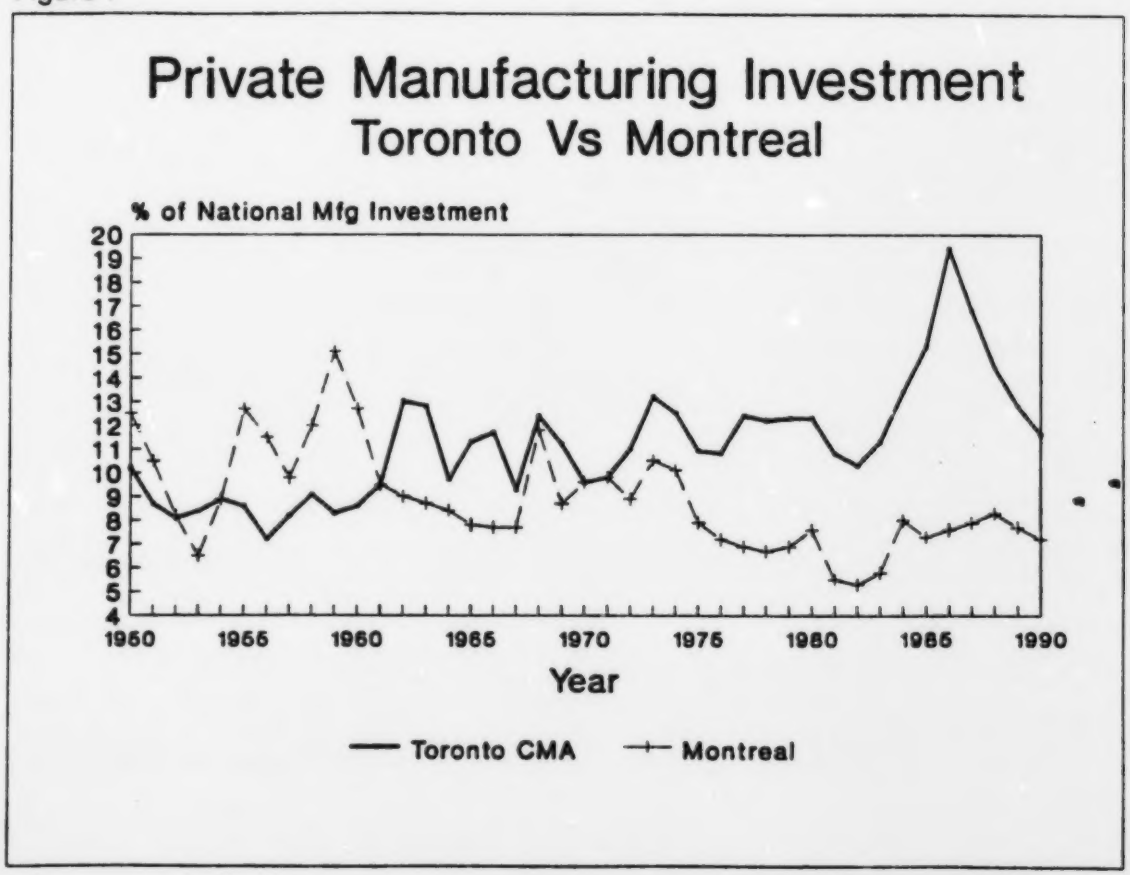


Figure 7



intentions for 1990, the current recession may have begun to bite in manufacturing for some while before it was felt throughout the rest of the regional economy.

The investment by the region's manufacturers has helped compensate for slow growth in employment, as both annual investment per establishment and annual investment per worker have risen steadily since 1960 (Table 6). The net result has been a sustained rate of growth in net output — or value added (even after screening out the effects of inflation) — that has far exceeded the growth in the number of establishments or the number of production workers.

The clear implication is that the productivity of manufacturers in the region has been increasing steadily in the past 35 years (Figures 8 and 9). In fact, real net output per production worker (in 1971 dollars) increased from $13,656 in 1955 to $24,635 in 1986 (the last year for which comprehensive statistics on manufacturing in the Toronto CMA were published).

A review of performance makes it clear that the manufacturing sector's job-producing ability has slowed down considerably — no doubt the result of increasingly capital-intensive technologies being used by manufacturers in the region. However, manufacturing output in the Toronto CMA has continued to rise in real terms (i.e., controlling for inflation), suggesting that its contribution to the regional economy remains extremely important.

Furthermore, the purchases made by manufacturers as they acquire necessary materials, plus the wages spent by manufacturing workers, generate large monetary flows to other sectors in the regional economy, thereby serving as important but **indirect** creators of employment. Current leading manufacturing industries in the region are transportation equipment, electrical and electronic products, food products, fabricated metal products, chemicals and chemical products, and printing and publishing.

Table 6.

Selected Statistics for Manufacturing Activity in the Toronto CMA, 1955-1986

	Annual Investment (Constant 1971 $ in millions)	Number of Establish-ments	Number of Prod. Workers	Annual Investment Per Establish. ($' 000)	Annual Investment Per Worker ($' 000)	Number of Workers Per Establish.	Value Added (Current $) (millions)	Value Added (Constant 1971 $) (millions)	Value Added Per Production Employee (1971 $)
1955	225.4	3,497	97,205	64.5	2.32	27.8	796.8	1,327.4	13,656
1960	211.9	4,741	144,418	44.7	1.47	30.5	1,592.1	2,209.3	15,298
1965*	403.9	5,441	190,443	74.2	2.12	35.0	2,739.1	2,990.9	18,705
1970	456.6	5,684	205,973	80.3	2.22	36.2	3,800.8	3,901.6	18,942
1975*	587.4	5,894	240,806	99.7	2.44	40.9	7,191.3	4,990.2	20,723
1980*	683.5	7,010	254,850	97.5	2.68	36.4	12,159.9	5,136.5	20,155
1986*	1,320.8	8,429	301,375	156.7	4.38	35.8	21,708.7	7,424.4	24,635
% Change 1955-1986		141.0%	210.0%	142.9%	88.8%	28.8%		459.3%	80.4%

Source: Statistcs Canada catalogues 31-209 and 61-205 (various years)

* CMA boundaries were expanded in 1961, 1971, 1976, and 1986.

Figure 8

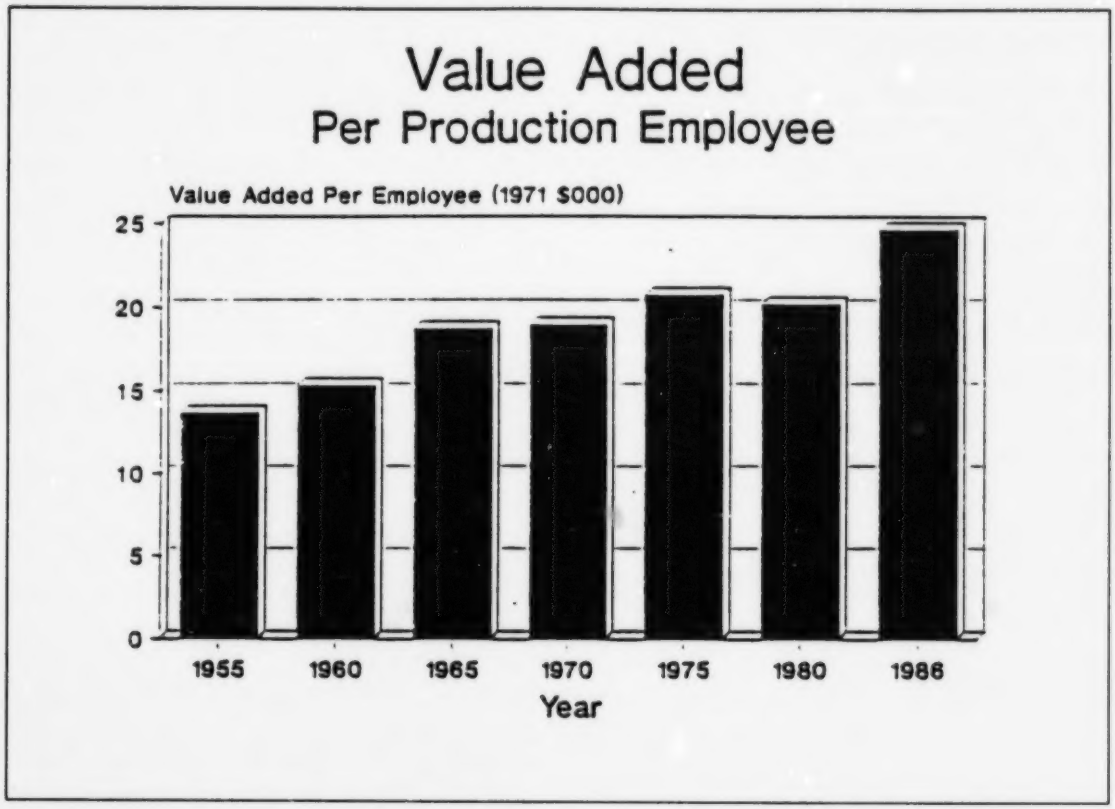


Figure 9

Having put manufacturing in its proper perspective, we turn now to the occupational structure of the labour force in the Toronto CMA (Table 7):

- While total employment grew by more than 40 per cent between 1976 and 1990, the growth of individual occupational categories varied quite a bit from this average.

- The fastest-growing occupations were those in the managerial and administrative category, which more than doubled in size.

- Second fastest were the other professions, which grew 63 per cent.

- Clerical, sales, and service jobs all grew at below-average rates, as did the construction trades.

- Within manufacturing, processing and (especially) fabrication, assembly, and repair occupations experienced increases, while the number of machining jobs declined by more than one-quarter.

The net result is that, by 1990, the occupational distribution showed that more than one-third of all workers are in white-collar, professional, managerial or administrative jobs. Another 40 per cent plus are in lower-level service occupations, while only about 12 per cent of employees work in traditional manufacturing occupations.

Related to occupational change is a startling increase in the number of part-time jobs in the region:

- While full-time employment across all sectors in Metro Toronto increased by 15.1 per cent between 1983 and 1989, part-time employment rose by nearly 99 per cent.[3]

- During this time, part-time employment increased steadily from 10 per cent to 16 per cent of the total. By 1989, in some sectors — such as retail and non-office services — part-time employment accounted for 38 and 30 per cent respectively of total employment.

Table 7.

Changes in Occupational Structure in the Toronto CMA

	% Change in Employment 1976 — 1990	% Share of Total Employment 1976	1990
All Occupations	43.3%	100.0%	100.0%
Managerial/Admin.	172.1	9.2	17.3
Others Professionals	63.0	15.9	17.8
Clerical	31.5	22.9	20.8
Sales	29.6	12.1	10.9
Service	27.7	12.1	10.7
Processing	2.5	2.7	1.9
Machining	-28.0	2.8	1.4
Product Fabrication, Assembly, and Repair	25.4	10.3	8.9
Construction	30.8	5.7	5.2
Transport Equipment Operation	21.4	3.4	2.8
Material Handling	22.0	2.7	2.3

Source: Labour Force Survey

Figure 10

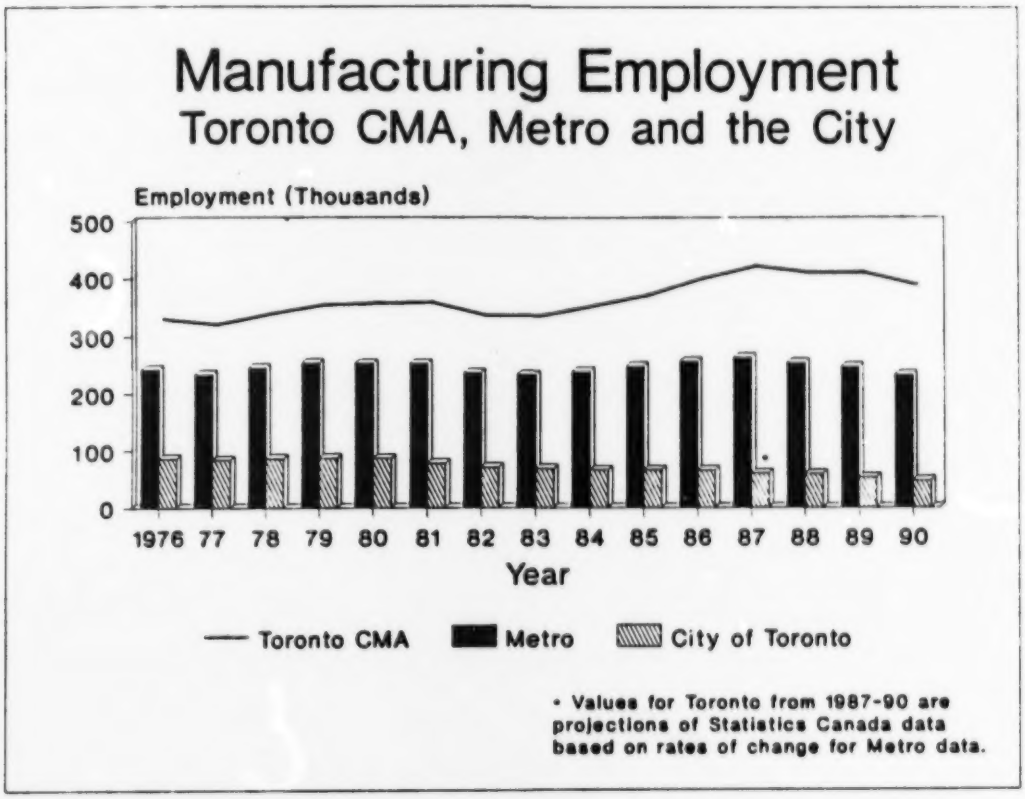
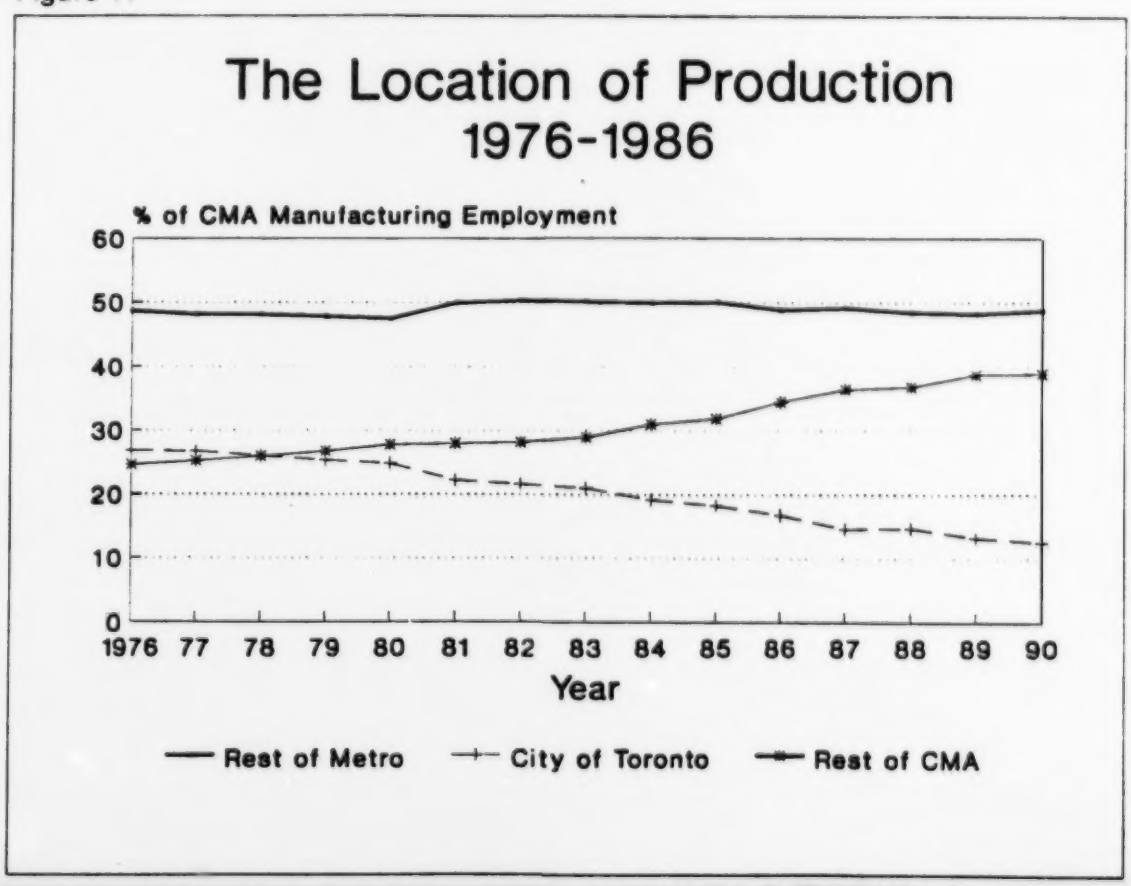


Figure 11



- Even the manufacturing sector has been subject to this transition. According to Yalnizyan, virtually the entire increase of three per cent in total employment between 1983 and 1989 was due to an increase in part-time jobs — full-time jobs having declined by 0.3 per cent.[4]

To this point, we have treated the Toronto CMA as one homogeneous region, without distinguishing shifts in geographical distribution within its borders. One of the most notable trends during the past decade or two is the marked decentralization of manufacturing activity from the City of Toronto to the outer parts of Metro, and from Metro to the outlying fringe of the regional municipalities of York, Durham and Peel. Although this trend has been marked for some years, it was especially noticeable in the 1980s, as shown in Figures 10 and 11, which shows that the City of Toronto's share of CMA manufacturing employment declined rather consistently, as did its absolute employment levels.

Metro lost manufacturing employment share until 1984, when, for a few years, it captured a slightly greater portion of the region's manufacturing employment; absolute levels of manufacturing employment have fluctuated around 250,000 with a peak in 1981, a smaller peak in 1986, and an overall downward trend since then.

The trend towards decentralization is linked to some of the changes within manufacturing that were documented earlier. In particular, the marked tendency of producers to mechanize (use more machinery and equipment per dollar of output) has resulted in direct spatial consequences. With more fixed capital per worker, production facilities have grown in size. The resulting demand for larger land parcels has translated into the gradual shift to more suburban parts of the region (or to areas outside the region itself) noted above.[5]

Increasingly, the net result of these geographical shifts has been to make office-based sectors and occupations a larger part of the central city economy (Figure 12):

- In 1970, manufacturing jobs still constituted more than 25 per cent of all jobs in the City of Toronto but, by 1990, this share had dropped to only 6.6 per cent.

- At the same time, according to the City's own Planning Department, office-based employment climbed from 38.1 to 57 per cent of the City's employed workforce.[6]

- According to unpublished figures, between 1983 and 1990, the total number of manufacturing jobs in the City declined from 54,800 to 38,900 — a 29 per cent drop.[7]

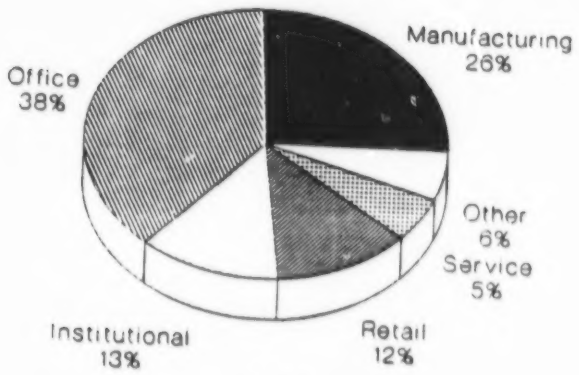
A parallel geographical trend has been the rise of significant employment centres outside the City of Toronto: major office nodes have developed in Etobicoke, North York, and Scarborough, as well as in sites outside of Metro, such as Mississauga and Markham.[8]

This review of the major trends that have emerged in the Toronto regional economy during the past 15 to 20 years makes it clear that manufacturing has been the traditional workhorse of the region. However, its direct contribution to employment has dwindled: while it once provided jobs for as many as one in three workers, manufacturing accounted for only one in four jobs in the '70s and, in 1990, only one in five workers in the region found a job in manufacturing. In the City of Toronto, the decline was precipitous during the 1980s — from about one in eight to approximately one in 15. We have seen that, in place of manufacturing, there has been a dramatic rise in service activities — most notably financial, community, business, and personal services.

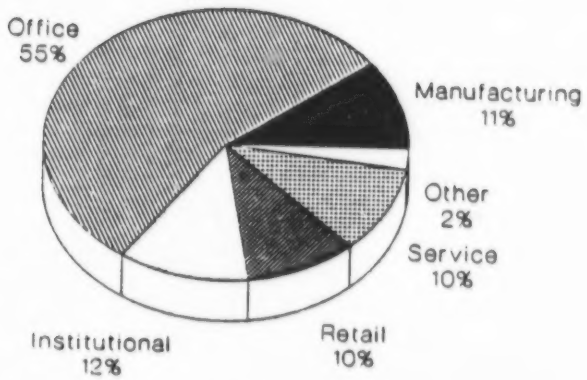
However, I have attempted to show that employment change alone may give a somewhat misleading impression of the dynamics of the regional economy. This analysis of changes within the manufacturing sector suggests

Figure 12

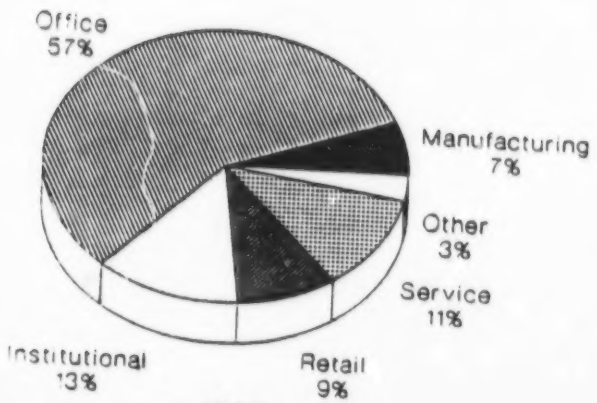
Share of Employment by Industry
City of Toronto: 1970, 1984 and 1990



1970



1984



1990

that — at least until the late 1980s — investment, net output, and productivity all increased in real terms. Unfortunately, our detailed statistical record of changes within the region's manufacturing sector stops in 1986. Beyond that point we have only a partial reflection of developments.

The result is that manufacturing is still a driving force in the regional economy, although, due to technological and organizational changes, it is no longer the **direct** producer of jobs it once was. Despite its faltering job-generating capacity, manufacturing should not be dismissed as an object of economic development policy. Indeed, much of it continues to bring income into the region from outside, and the purchases that manufacturers (and their workers) make in the region stimulate job creation in other local sectors. Furthermore, the average pay levels of jobs in manufacturing still significantly exceed those in the service industries.[9]

Having acknowledged this point, it must also be said that certain of the new service activities have begun to perform as engines of growth for the region's economy. While post-secondary education, health care, tourism, and provincial government activities have long constituted essential components of the region's economic base, the most noteworthy recent addition to this list is financial services, where impressive growth has already been noted. For central areas of the region, the City of Toronto in particular, these non-manufacturing pillars of the economy are especially significant. In the following section, I assess the challenges and opportunities facing the foundations on which the regional economy is based.

II. THE PRESENT: SOURCES OF CHANGE, INTERNAL AND EXTERNAL

There are a number of important forces currently acting on the region that threaten its continued prosperity and possible opportunities for future growth. Of course, present economic analysis and debate are dominated by the currently unfolding recession that began (nationally) in the second quarter of 1990. This event has already caused national unemployment rates to rise sharply in recent months, accompanied by layoffs and apparently permanent shutdowns beginning first in the manufacturing sector and spreading more recently to service-based segments of the economy. Most prognosticators now suggest that the current downturn will be deeper and longer-lasting than expected, with key indicators like the unemployment rate recovering more slowly than after the recession of the early '80s.[10]

The recession makes it rather more difficult to predict prospects for the future of the regional economy, because its effects are undoubtedly mingled with other, more fundamental, structural changes that are also playing themselves out in the present period. Before attempting to unravel these various effects to see how they might influence key sectors of the region's economy, let us take a brief look at the recession itself.

Given the time lag that normally characterizes the publication of economic data at the sub-provincial level, it is difficult to find up-to-date indicators of the recession's impact on the Toronto regional economy. Some numbers are available, however, and they tell an interesting story, most notably in unemployment statistics for the Toronto CMA (Figure 13): the unemployment rate stood at 3.2 per cent in April, May, and October 1988. Fluctuating somewhat from month to month, it reached 5.4 per cent in September 1990. From then on, it has climbed steadily, nearly doubling in a scant six months to 10.1 per cent in March 1991. As Figure 13 shows, this escalation of the regional unemployment rate has occurred much more rapidly than it did during the last recession. In that earlier downturn, it took a full 14 months (from December 1981 to February 1983) to produce a similar rise in the unemployment rate, which then topped out at a high of 11 per cent

Figure 13

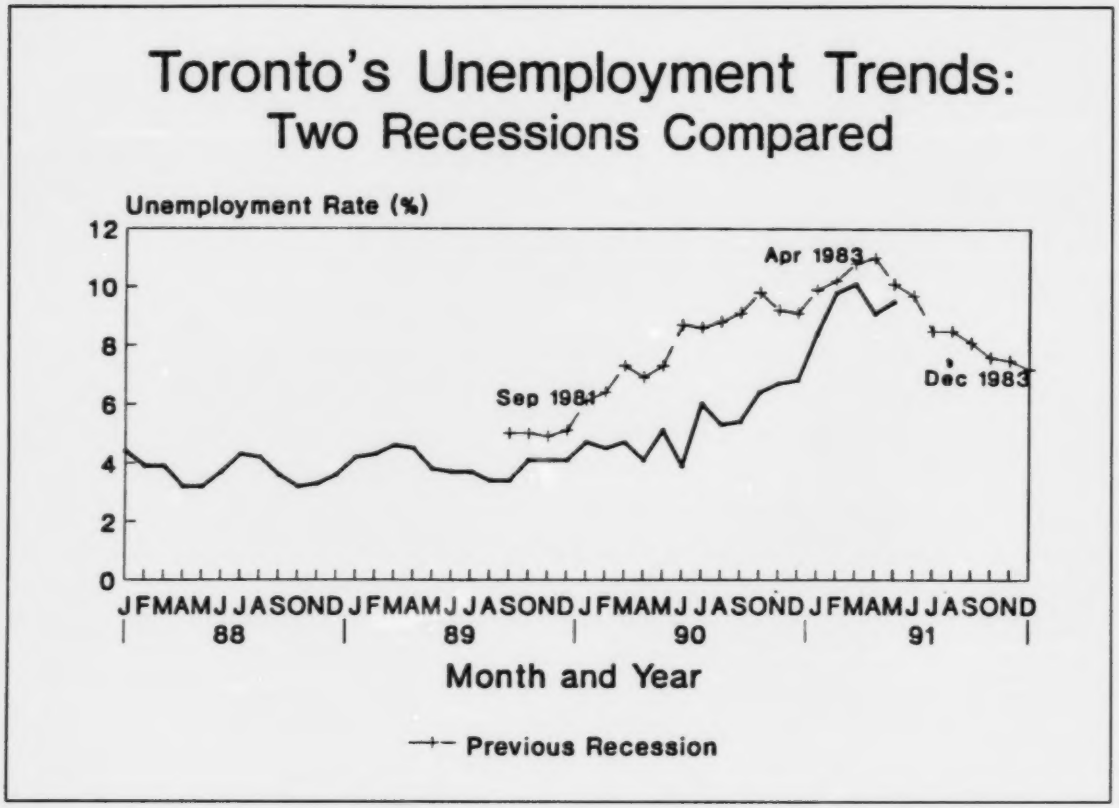

Toronto's Unemployment Trends:
Two Recessions Compared
Unemployment Rate (%)
12
10
8
6
4
2
0
Apr 1983
Sep 1981
Dec 1983
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D
88
89
90
91
Month and Year
Previous Recession

Figure 14

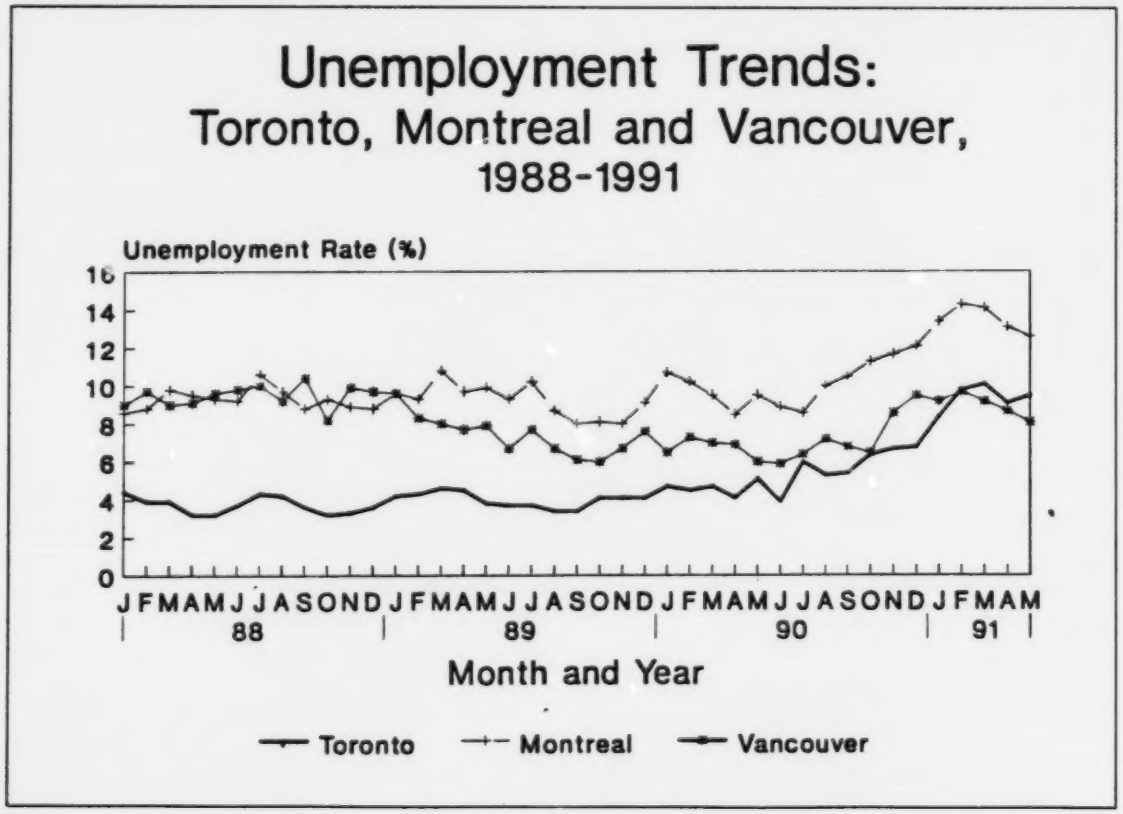


Table 8.

Employment by Industry over the Last Eight Quarters, Toronto CMA

('000)

	1989				1990						
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Peak Quarter	Change Since Last Peak (Trough) #	%
All industries*	1,907.1	1,945.2	**1,975.0**	1,932.2	1,927.9	1,949.7	1,945.9	1,900.8	1989 (3)	-74.2	-3.8
Manufacturing	389.5	410.4	**419.6**	394.6	389.4	378.2	381.6	373.0	1989 (3)	-46.2	-11.0
Durable	208.5	215.6	**216.0**	198.0	203.6	196.1	206.4	197.6	1989 (3)	-18.4	-8.5
Non-Durable	181.4	194.8	**203.6**	196.6	185.8	182.2	175.2	175.4	1989 (3)	-28.2	-13.9
Construction	119.6	117.3	131.6	**143.2**	121.7	116.8	124.6	110.0	1989 (4)	-33.2	-23.2
T.C.U.	152.9	**167.9**	147.1	133.1	149.2	158.2	146.9	121.8	1989 (2)	-46.1	-27.5
Trade	332.7	302.8	304.9	310.8	327.3	328.8	337.7	**357.6**	1990 (4)	+54.8	+18.1
FIRE	156.9	168.7	181.8	184.5	187.6	188.0	189.5	**189.7**	1990 (4)	+32.8	+20.9
C.B.P. Services	662.6	660.9	656.7	661.3	654.0	**667.8**	651.1	646.4	1990 (2)	-21.4	-3.2
Public Admin.	80.4	101.7	**113.6**	88.1	89.4	103.2	100.6	89.6	1989 (3)	-24	-21.1

Source: Unpublished statistics from the Labour Force Survey, Statistics Canada (furnished by the City of the Toronto Planning and Development Department).

* Also includes a small number employed in primary industries (not shown).

Note: Boldface figures indicate peak employment level for each sector.

in April 1983. While Toronto seems to have fared better in the current recession than the Montreal region (where the March unemployment rate stood at 14.1 per cent), this is little cause for celebration locally (Figure 14).

Analysis of employment change in individual sectors in the Toronto CMA over the last eight quarters (two years) reveals some telling patterns (Table 8):

- Overall employment reached its peak in the third quarter of 1989, and has declined by 74,200 jobs (or 3.8 per cent) since then.

- Manufacturing and transportation, communications, and utilities (TCU) each lost in excess of 46,000 jobs, while construction jobs declined by 33,200 (almost 25 per cent). Interestingly, all of these sectors peaked sometime in 1989.

- Public administration also peaked early and has declined by 24,000 jobs since the third quarter of 1989.

- Community, business, and personal services hit their peak only in the second quarter of 1990, losing 21,400 jobs since then.

- Retail and wholesale trade employment continued to rise until the end of 1990; however, based on recent media stories, one suspects that figures for the first quarter of 1991 will show a major decline as the combined effects of the federal Goods and Services Tax, the recession, the demise of Sunday shopping, and the transborder shopping craze kick in.

- Finance, insurance, and real estate (FIRE) experienced sustained expansion over this two-year period, adding 32,800 jobs — a growth rate of more than 20 per cent.

Apart from documenting major job losses in particular sectors (notably in manufacturing, TCU, and construction), these figures provide some insight into the dynamics of the regional economy in recent times. It is hardly

coincidental that the goods-producing industries and public administration were amongst the earliest sectors to go into decline, to be followed six to 15 months later by decreases in community, business, and personal services and (probably) retail/wholesale trade.

We are seeing the lagged effect of income loss in the region's goods-producing sectors (due to early layoffs, shutdowns, and increasing use of part-time labour) on those sectors that depend on goods production as their principal source of demand. Once again we are reminded of the strategic importance of manufacturing (and, to a lesser extent, government) to the health of the region's economy. When these decline, the consequences for other parts of the economy are less than rosy. Such events, more sharply than anything else, put the recent phenomenon of service employment growth into its proper perspective.

This is not to say that services play no constructive role in the economy — far from it. It has already been noted that certain kinds of services actually draw income into the region from the rest of Ontario, Canada, and possibly beyond. And those that do not may still contribute in important ways to the overall quality of life in the region (an important competitive asset). Furthermore, the fast-growing, so-called producer services perform the key role of providing essential support functions for manufacturers in the region (and possibly elsewhere). These include firms specializing in engineering, scientific research, product development and testing, industrial design, management consulting, advertising and marketing, computer database and software services, lawyers, accountants, and even security and janitorial services. However, it must be remembered that much of the growth in producer services has come about through the shedding by manufacturers of functions that they once performed for themselves in-house and now acquire through market transactions.[11]

Given some idea of the structure and dynamics of the regional economy in recent times, what are the prospects facing the major pillars on which Toronto's economy is based?

Manufacturing

Assessing prospects for the manufacturing sector depends to a large extent on whether one views its current malaise as merely a short-term downturn or as a sign of long-term restructuring. The optimists tend to side with the short-term view, arguing that we are simply seeing the local results of a temporary national downturn. According to this argument, the region's manufacturing industries will rebound as soon as interest rates fall enough to ease the cost of capital and allow the Canadian dollar to fall to a more "natural" lower value. The lower dollar will make our products cheaper and hence more attractive to foreign buyers, leading to an increase in exports. Another element of the optimists' argument is that the recent introduction of the GST serves as a boon to manufacturers, because it has the effect of reducing the cost of machinery and equipment purchases.[12] Finally, some contend that the Free Trade Agreement (FTA) will spur an investment boom in Southern Ontario (including Toronto) as Canadian firms gear up to meet the U.S. competition and foreign firms invest here to gain a foothold in the Canada - U.S. trading bloc.

The alternative view (held, incidentally, by those across a wide range of the political spectrum) believes there is a more fundamental restructuring under way in Ontario and Toronto manufacturing, the negative consequences of which may have been exacerbated by the current recession, but not ultimately caused by it. The major force at work here, of course, is the FTA and the increasing degree of global competition that it represents. According to this view, many manufacturing plants in the Toronto region have become vulnerable to increased international competition now that tariffs have been removed or reduced.

Foreign-owned branch plants are especially vulnerable, particularly those more than 10 to 15 years old, in previously protected sectors, employing labour-intensive technology to produce mature, standardized products in relatively small production runs. Canadian firms — especially those that previously enjoyed tariff protection — will also be adversely affected. Without government assistance to help them (and their workers) to adjust to the new competitive realities, many of these firms are finding it difficult to

compete successfully against U.S. companies with pre-existing competitive advantages based on superior technology, quality, production costs or scale economies (the benefits of long production runs).

In this scenario, not only will Canadian firms have a tough time cracking the highly competitive U.S. market, but they will also be hard pressed to defend their own domestic market from foreign-based producers. Finally, many of those firms employing labour-intensive production methods (whether foreign or Canadian-owned) will be enticed into relocating their plants in cheap-labour sites such as Mexico or the southern U.S.

The proponents of this more pessimistic view argue that these forces have already been responsible for a rash of permanent plant shutdowns in manufacturing that have caused the previously noted dramatic losses in employment.[13] Furthermore, the Toronto region is alleged to have been hard hit by these forces, not only in the older industrial districts within the City and Metro, but also in newer, outlying areas beyond Metro's borders. Given that foreign-owned branchplants have tended to rely less heavily on suppliers within the region than domestically owned manufacturers, they have been freer to seek more peripheral locations within the region (and beyond) offering cheaper industrial land in large parcels. Now that these plants are so vulnerable to closures, it should come as no surprise that suburban areas are also being hit by shutdowns. The most vivid recent example is the decision by Caterpillar Inc. of Peoria, Illinois to close its 380-worker Brampton plant, moving production to its plants in North Carolina and Illinois.[14]

In weighing these two views, there seems little doubt that we are experiencing something more than just a recessionary downturn. Even proponents of free trade admit that there are bound to be major restructuring effects in the manufacturing heartland of the country (the debate revolves around whether the upheaval and human cost is worth it, and what kind of employment opportunities exist for displaced workers).[15] And the evidence seems to indicate that the impact of the current recession on manufacturing in Ontario has been more severe than was the case in 1981_82.[16] To unravel this issue further, it is helpful to examine the competitive dynamics of a number of the Toronto region's key manufacturing industries.

Automotive

Transportation equipment industries led all others in the Toronto CMA in 1986, in terms of both employment and the value of shipments. Direct employment that year was more than 51,000 jobs, with shipments in excess of $10 billion. Of these totals, 36,400 in employment and $8.75billion in shipments were directly attributable to motor vehicle or parts production.[17]

The assembly sector has long been dominated by the Big Three U.S.-based producers (GM, Ford, Chrysler) and, since the mid-1960s, has operated continentally under the Auto Pact. While this arrangement provided stable growth for the Canadian industry over much of the period after it was enacted, in recent years there has been a major competitive threat, in the form of Japanese imports and more recently "transplant" production in North America. In the past year, industry analysts have observed growing overcapacity in this sector, as one assembler after another invests in major new or upgraded production facilities in order to gain some competitive advantage.

With demand for new cars stagnating, and with North American car buyers still showing a strong taste for Japanese-built products, much of the Big Three's investment has gone unused. Current layoffs in the industry are at notably high levels. What is perhaps even more insidious is the increasing use of work-sharing and other means of part-time employment in the assembly industry.[18]

The Toronto CMA contains major plants in Oakville (Ford) and Brampton (Chrysler), with GM's complex in Oshawa just beyond the CMA's eastern boundary. Significantly, none of the Japanese transplant operations has set up shop within the CMA (Honda is located in Alliston; Toyota is in Cambridge; and the CAMI joint venture between GM and Suzuki is in Ingersoll). These producers appear to have shown a distinct preference for avoiding highly unionized big-city labour markets, and have also sought large parcels of relatively cheap land for future expansion on site.

To the extent that the transplant product continues to gain market share at the expense of the Big Three, the direct employment prospects for automotive workers in the region are not appealing. Of course, parts producers within the region may benefit to some extent from surging production levels in the Japanese-owned plants — if they are successful in convincing these assemblers that their parts meet the quality and delivery-time standards set by the Japanese. Indeed, there was something of a boom in Canadian-owned auto parts production over the 1980s, led by the emergence of much publicized, technologically sophisticated parts firms such as Magna. Magna's recent troubles also indicate that even the "success stories" are vulnerable to a slump in automotive sales. Furthermore, the Japanese transplants have been notoriously slow to increase the Canadian parts content of their Canadian-assembled cars.

However, a more troubling trend for the Toronto region has been the recent spate of announcements by auto parts firms that they are leaving the region for the U.S. South or Mexico. Most of these plants have been low value-added and labour-intensive, producing parts in relatively large batches that require relatively infrequent interaction with assembly plants.[19] The negative impact of these departures is not limited to the (former) workers in these plants, but also includes reduced demand for a large range of manufactured materials that have traditionally been supplied by other producers in the region.

In recent years, much has been made of the rise of new process technologies and organizations based on flexible production methods, as well as just-in-time (JIT) inventory management and quality control. These systems — allegedly characterized by frequent deliveries, at irregular intervals, of parts that have been made to order, on relatively short notice, and in small batches — seem to make spatial proximity between assembler and parts producer more important than before.

While such systems were first perfected by the Japanese (most notably Toyota), they have now been adopted (albeit in somewhat modified form) by the Big Three. The most obvious example is GM's "Autoplex" in Oshawa, in

which many parts suppliers are now obliged to locate no more than four hours' drive from the plant.[20]

This trend, if it takes hold in the Canadian industry, would seem to offer both opportunities and challenges for the Canadian parts industry. On the up-side, at least certain kinds of parts producers will be under stronger pressure to remain close to their assembler customers in Canada, thereby making the Mexican option less attractive. At the same time, however, Canadian parts producers selling primarily to U.S. plants may feel a stronger pull to locate closer to their major market south of the border. Furthermore, the feasibility of operating a true JIT system in (or involving parts producers in) the Toronto region will depend heavily on the quality and quantity of transportation system infrastructure to combat congestion problems in the area.

If the Japanese transplant assemblers pursue JIT seriously here, they may exert pressure on their preferred parts suppliers to escape the congested confines of the Toronto area in order to guarantee more reliable delivery.

Food and Beverage

In 1986, the food and beverage industry ranked second in value of shipments (at $6.25 billion) and sixth in employment in the CMA. It was widely expected to undergo major restructuring in the wake of the FTA and, indeed, such has been the case. In an industry in which economies of scale have traditionally been an important factor in keeping production costs down, removing tariffs has made many (generally small) plants in Canada extremely vulnerable to rationalization and shutdown.[21]

Perhaps the best current example of restructuring is Campbell Soup Co. Ltd. (makers of soups and other prepared foods); as a result of the FTA, Campbell's parent (based in Camden, New Jersey) took its Canadian operations out of its international division, making them instead a division within North American operations. This set the stage for a geographical and product-mix restructuring aimed at making use of excess capacity in the more efficient U.S. plants, while closing down the most inefficient Canadian

operations. The net result has been a reduction in the number of Canadian plants from 11 in 1985 to four currently. In making these changes, Campbell divested itself of certain non-core product lines and designated plants in Toronto, Listowel, and Chatham as specialized plants with the task of serving the company's entire North American market.[22]

In this particular case, the Toronto plant appears to have benefitted, although there clearly are other Canadian plants that have not been so lucky. For example, meat packing has suffered the ravages of U.S. competition in an environment of shifts in demand away from red meat products in favour of chicken products. In the fundamental rationalization that has occurred in the last several years, a number of older plants in the Toronto region have been shut down by companies such as Canada Packers, now owned by Britain's Hillsdown Holdings.[23]

Along with major moves by Planters Peanuts and Rowntree MacIntosh, among others, the net result for older industrial areas such as the City of Toronto has been a marked loss of food and beverage employment from a 1986 high of 10,741 to a 1990 figure of 6,297.[24] Most recently, Kellogg Canada Inc. announced plans to close a Toronto office and pudding and pie plant, moving some of its operations to U.S. plants.[25]

Printing and Publishing

In 1986, the printing and publishing industry ranked a surprising second in employment terms in the Census Metropolitan Area, accounting for 41,700 jobs. Its shipments of $3.9 billion placed it sixth in the region. However, in recent months the Canadian book publishing subsector (centred in Toronto) has been buffeted by the combined impact of slumping recessionary demand and a new tax (GST) on books, which has already contributed to the demise of local firms such as Lester and Orpen Dennys and Summerhill Press. While cultural industries were exempt from the provisions of the FTA, affording continued protection of Canadian publishers in the domestic market, firms in this sector worry that trade negotiators will succumb to pressure being brought by American interests to open up still-protected segments of the Canadian market.[26]

The printing portion of the industry also benefits from such existing non-tariff barriers as government procurement policies that, in effect, require Canadian school texts to be printed in Canada. These, too, are likely to attract the attention and ire of U.S. printers eager to gain a greater share of the Canadian market. Should the Americans be permitted to do so, they will likely undercut Canadian competitors on the basis of superior scale economies.

Newspaper publishing has been badly hit by the drop in advertising revenues during the recession, although this situation should improve as the economy moves into its recovery phase. While one might expect that, by definition, this industry would be strongly tied to the regional economy, two empirical trends bear noting. First, the *Globe and Mail* restructured its operations in 1980 to enable it to print its national edition (with regional advertising) in a number of different centres across the country.[27] This has had the effect of transferring employment (that might have remained in the Toronto region) to sites well beyond its borders. Since the text for the national edition is now transmitted by satellite to distant printing plants across the country, the associated printers' jobs are now to be found outside Toronto.

Second, the *Toronto Star* recently announced (with obvious reluctance) the relocation of its printing operations from downtown Toronto to Vaughan in York Region, citing a need for greater space that could not be satisfied in the City of Toronto. While the *Star*'s operations will remain firmly within the region, its move is an example of the locational dynamics operating in many industries in the region.

While business publications have also been hard hit in the short term by the recession, the impact may also be longlasting. Witness the recent announcement by Southam Business Communications that it is considering selling its Toronto office and moving to cheaper, rented quarters (location undisclosed).[28]

Electronics and Aerospace

While neither the electronics nor the aerospace industry ranks in the top five manufacturing sectors in the CMA, they did generate $2 billion and $1.1 billion, respectively, in 1986 shipments.[29] Furthermore, they are significant to the region in that both count major exporting firms among their local ranks. For example, Northern Telecom (NT), headquartered in Mississauga, is one of Canada's well-known international successes, banking as it has on developing world-leading technology in digital telecommunications networks.[30] DeHavilland has also been successful in selling its STOL commuter aircraft around the world. However, developments in both of these firms are sources of concern for the Toronto region.

NT's success has gone hand-in-hand with the increasing movement of its production facilities to the U.S., Europe, and elsewhere. This trend will likely continue as the company shifts its customer base away from the domestic market (dominated by its parent, Bell Canada) to international markets.[31] Furthermore, NT has also embarked upon a strategy of dispersing its research and development facilities to other countries, limiting this portion of the industry's growth prospects at home.[32]

DeHavilland, owned by Boeing of Seattle, has been in the news a great deal lately as the object of a takeover bid by a joint French and Italian aerospace consortium. While the prospective buyers have pledged to maintain production and R&D in the Downsview plant (currently Metro Toronto's largest single industrial employer), they have also made it clear that they intend to reduce the size of the in-house workforce, contracting out a good deal of parts production to other producers. When this happens, the extent of sub-contracted production that will remain in the region will be of major importance to the local economy. The consequences for Toronto workers in this sector may be rather unfortunate if some of the business and employment associated with DeHavilland ends up flowing to the Montreal region's aerospace industry, which also has a well-developed network of sub-contractor firms.

In general, the outlook for future demand for aerospace products is clouded by the recent end of the Cold War. The U.S. defense build-up during the Reagan years quietly brought prosperity to a good number of defense sub-contractors located in the Toronto region. With the slowing of arms build-up, many of the major U.S. prime defense contractors have already announced large layoffs,[33] and the ripple effects are working their way north of the border through the sub-contracting system.

Other Issues in Manufacturing

Consideration of the plight of manufacturing in the Toronto region raises a number of other, overarching issues. I have already made reference to the negative impact of the currently high value of the Canadian dollar. It not only makes our exports expensive and imports cheaper, but may also discourage further investment here because of its impact on the cost of Canadian inputs relative to those in the U.S. or Mexico.

One key input is labour, the cost of which, given the highly valued Canadian dollar, appears to be increasingly uncompetitive. While this has been isolated by many as a source of competitive disadvantage, [34] it is inadequate and misleading to focus solely on wages as the source of all competitive problems in Canadian manufacturing.

A number of points need to be stressed. First, high wages need not be a competitive disadvantage if they are offset by sufficiently high productivity levels. Productivity can be improved through the joint application of investment and greater effort in worker training by firms. Second, it is not sufficient to scrutinize only the hourly wages paid to workers. One must also take into account the cost of benefits that are commonly paid for by employers. For example, Ontario's public health insurance system, OHIP, represents a strong competitive advantage in important industries such as automobile manufacture, where it makes the full hourly costs of labour (benefits included) quite competitive relative to U.S. levels.[35]

Financial Services

I have already noted the tremendous employment growth enjoyed by the financial services sector in recent years, an increase that appears to have continued unabated during the early months of the recession. But can we expect financial services to continue to grow for the foreseeable future? There are two schools of thought: some observers, notably in other countries, see the boom in financial services as largely a one-time-only event — largely as a result of financial deregulation.[36] According to this view, in countries like the U.S. and U.K., where financial deregulation has largely run its course, financial services will, in the future, grow only about as fast as the population.

On the other hand, Canadian observers feel that the industry in this country still has considerable room to grow. Their argument is based on three points:[37] first, financial deregulation in Canada began later than in other countries and has a way to go. The growing sophistication of investors and borrowers is being met with continuing innovations in financial service products made possible by both computer technologies and a deregulated atmosphere. Second, as the baby boom generation ages and moves into the net saving phase of life, the demand for a variety of innovative savings vehicles will expand. Third, many financial services are not easily or effectively automated, because transactions require face-to-face contact. Consequently, the labour-intensive nature of this business is good news for sustained employment growth, notwithstanding the potential for cyclical downturns following the path of financial markets.

It is further argued that the Toronto region (largely the City of Toronto) is well placed to continue to benefit from this anticipated expansion. Not only does its high quality of life attract the kinds of people working in this sector, but there may be reason to believe that its major competitor in the same time zone — New York City — is reaching the limit of its growth in financial services. Impending labour shortages, high house prices, decaying infrastructure, a deteriorating local education system, and an increasingly strained quality of life may spell an end to New York's phenomenal growth in this sector.

While the prospects for continued growth in Toronto appear good, they carry with them a number of caveats:

- First, financial services are characterized by a somewhat polarized occupational structure made up of very highly paid professional, managerial, and administrative workers and rather poorly paid clerical workers. While 51 per cent of the former group earned in excess of $40,000 annually in the Toronto CMA in 1986 (and more than one-third earned in excess of $50,000), nearly three-quarters of the clerical group earned less than $20,000, and almost one quarter made less than $10,000.[38] Furthermore, clerical workers make up the single largest occupational group within this sector, and approximately 86 per cent of them are women.

- Second, there is the relationship of financial services to other sectors of the local economy. While it is clear that a great deal of the activity in Toronto's financial services sector can be considered "basic" — in the sense that it draws income into the region from other parts of the province and the country, and even from other countries — the degree to which income in this sector stimulates the economy of the rest of the region is still unclear.

Because there are no good studies of the size and incidence of backward linkages (purchases) from financial services to other parts of the regional economy, we are unable to compare their impact to that of other basic activities such as particular forms of manufacturing. My hunch is that the intra-regional spin-off or "multiplier effects" from this sector do not come close to matching multipliers in the manufacturing industries. If that is correct, it raises some important issues about the extent to which a surging financial services sector can be a good substitute for what looks like a sagging manufacturing sector.

Tourism

This oft-overlooked sector deserves mention as a very significant contributor to the health of Toronto's regional economy. In 1989 (the most recent year for which figures are available), 22,186,000 trips were made to the Toronto region (defined by provincial analysts to include Metro Toronto and Peel). This activity generated tourism revenues of over $4.4 billion and direct employment of over 59,000 in sectors such as accommodation, food services, recreation, retailing, public transportation, and car rentals.[39] It is worth pointing out that these figures compare favourably to many of the manufacturing sectors already reviewed, and if anything, they understate tourism's importance to the region by excluding Durham and York (the latter home of Canada's Wonderland) from the Toronto regional figures. Furthermore, while this sector is routinely characterized as offering only poorly-paid employment opportunities, the average annual wage earned in the Ontario tourism industry (covering both direct and indirect employment) was just under $30,000 in 1989.

Despite these considerable strengths, this sector too has had to deal with troubled times recently and faces an uncertain future. During the 1980s, there was very little growth in tourism activity. While the number of U.S. residents travelling to the region remained flat, the outflow of Torontonians to the States for pleasure trips has increased notably. More recently, this sector has been hard hit by the high Canadian dollar and recessions in both Canada and the United States. In January 1991, it suffered another blow with the introduction of the GST, which is expected to discourage both domestic and U.S. tourists from making trips to the region, by increasing overall travel costs. It may also be encouraging Canadians to travel outside the country rather than pursue tourism activities at home.[40]

Government

While it is now commonplace to view government as more of a burden than a blessing, the fact remains that Toronto is a government centre, and public-sector activities — especially at the provincial level — do bring income (tax revenues) into this region from the rest of the province, to the benefit of

our economy. In the City of Toronto in 1990, 45,600 government employees (from all levels of government) made up 7.7 per cent of total employment, compared with 6.3 per cent for Ontario as a whole and 6.8 per cent for Canada.[41] While the provincial government is centred in the City, its expenditures (including wages) undoubtedly benefit outlying parts of Metro and the CMA as well.

Although the region has been fortunate to have this concentration of largely well-paying jobs within its borders, the future of the government sector may be somewhat clouded. Beyond the likelihood of growth rates below those of the rest of the economy (because of fiscal pressures and taxpayer animosity), public-sector employment in the region is likely to be reduced as the Rae government carries out the government office dispersal program begun under the Peterson regime. The expected departure of the ministries of Natural Resources, Tourism and Recreation, and Labour will remove an estimated 1,500 jobs from the region, and an exodus of other departments is likely to be forthcoming.[42]

Other Considerations

Some of the most important stimuli to past growth in the Toronto region have had little to do with any of the forces discussed previously. One such example is the movement of large numbers of anglophone businesses and workers from the province of Quebec (largely Montreal) in the mid and late 1970s. Recent estimates place Montreal's loss of anglophones at more than 200,000 since 1976, and many of them settled in the Toronto region.[43]

The recent influx of immigrants, businesses, and investment dollars from Hong Kong has also brought prosperity to the Toronto region. However, both phenomena are, by and large, one-time-only occurrences: while the migration from Quebec may not yet have fully played itself out, even outright separation is unlikely to bring about the kind of influx of people and new businesses to Ontario that occurred in the 1970s. And, while we will probably see further migration of people and capital from Hong Kong as 1997 draws nearer, it is unlikely to be a source of sustained growth in the Toronto region

for an indefinite period.

Other inter-regional migration flows have had significant consequences for the pace of growth in the Toronto region in past years, and may do so again in future. But these kinds of movement are notoriously difficult to forecast. One example was the outflow of migrants from Ontario to Alberta in the late 1970s, as the post-OPEC western oil boom took shape. Were another major rise in oil prices to occur, we would likely see another exodus to destinations such as Alberta (and possibly even Newfoundland, if the Hibernia development ever materializes), with some negative consequences for the Toronto region.[44]

III. THE FUTURE: CHALLENGES FOR LOCAL AND REGIONAL ECONOMIC POLICY

I began this paper by noting how the rest of Canada either takes Toronto for granted or subjects it to scorn and ridicule, blaming it for causing economic problems elsewhere. Toronto's needs do not regularly find their way to the top of policy agendas in Ottawa or at Queen's Park. The only explicit government intervention it requires from time to time is a dose of anti-inflationary policy when Hogtown's economy gets a bit "overheated". Judging by the review of past economic changes and current challenges caused by structural shifts, it would appear that we can no longer take for granted that Toronto's prosperity will continue. To be sure, the current recession will end and growth will eventually return to certain sectors. Nevertheless, one has the sense that, even at that point, some major structural problems will plague the regional economy, preventing many individuals from sharing in the next wave of prosperity. Indeed, the current combination of cyclical downturn and fundamental restructuring is producing a recession of such severity that it is frankly difficult to assume that, once the "recovery" arrives, it will mean business as usual in Ontario or in most sectors of the Toronto regional economy.

Traditionally, growth in U.S. demand for manufactured products such as automobiles has fuelled economic recovery in Southern Ontario. However, with the shake-out going on in the auto parts sector (the most labour-intensive operations of which have been highly susceptible to relocations and closures), one wonders what kind of recovery we can expect in this region, and what the long-term future of employment opportunity here will be. And given that much of our past growth in services (especially non-financial) has relied upon demand from the manufacturing sector, is it reasonable to expect buoyant growth in services at a time when manufacturing is in decline?

Times like these present major challenges for government policy, and demand a fundamental rethinking of our traditional public-sector approach

to economic development. Most important, we need to change the way we perceive the economy and the very growth process itself.

In Canada, economic policy is dominated by traditional fiscal and (increasingly) monetary and trade policy levers manipulated in Ottawa for the presumed benefit of the entire country. And provincial economic/industrial policies tend to be organized largely on a sectoral basis. But recent scholarly work in the economic development field, examining the conditions under which firms and communities have grown and developed most successfully, suggests that our traditional approaches have been misguided.

Economic geographers have long told us of the importance of the territorial organization of the economy, emphasizing the benefits individual firms enjoy when they locate in a regional agglomeration that offers ready access to markets, suppliers, and appropriate workers. What is interesting is that, in the past six or seven years — and especially in the last two — this realization has begun to strike economists and analysts of industrial competitiveness as well.[45] Most recently, competitive strategy gurus such as Michael Porter of the Harvard Business School have argued that one key to the success of many companies has been the supply and demand conditions prevailing in their original home bases.[46]

The quantity and quality of **local** suppliers of goods and services and the local resource base (defined broadly to emphasize labour and infrastructure in particular) are especially significant to leading firms in the region. The nature of demand at home is also vital. Sophisticated and exacting consumers in the home market are the essential base on which firms can go on to compete successfully in other regions and countries. Competition with other home firms in the same sector also spurs companies to innovate and produce superior products.

Even government regulation can be seen as a long-run advantage if, for example, tough environmental standards force local industries to devise innovative, clean production processes or pollution abatement technologies that can then be sold elsewhere. Evidence in support of these claims comes from industrial powerhouses such as Germany, Japan, Italy, Switzerland, and

elsewhere, where it has been shown that the fundamental basis of successful industrialization is its territorial organization or clustering.

It would seem that an established economic agglomeration such as the Toronto region might be Canada's best example of an industrial district of the sort described above. Indeed, in their recent analysis of Canadian competitiveness, Alan Rugman and Joe D'Cruz of the University of Toronto's Faculty of Management identified ten key clusters across the country, three of which (based on automotive, advanced manufacturing, and financial services) involve Toronto.[47]

However, successful as it has been in the past, there are many aspects of the Toronto and Southern Ontario region that render it less conducive to dynamic growth than other industrial regions around the world:

- First, because branch plants tend to import many of their inputs from established sources abroad, the region's reliance on foreign-owned branch plants in many manufacturing sectors has probably stifled the growth of a strong local supplier base in key areas. For example, because they lack the ability to work closely with an indigenous machinery-producing industry, independent manufacturers in the region are forced to use more standardized, off-the-shelf production technologies, thereby limiting their growth potential.

- Second, despite having a generally good educational system, we have long avoided a serious commitment to vocational training in skilled manufacturing trades. As the sources of skilled labour from abroad dry up, we are being hampered by our own inability to produce the right kinds of workers in sufficient numbers.

- Third, with a relatively small indigenously owned manufacturing sector — and given their anti-collectivist mentality with its faith in rugged individualism and free markets — Canadian manufacturers in the Toronto region have not been well placed to appreciate the advantages that might flow from acting more co-operatively with one another, using **locally based** industry associations that do more than

lobby Ottawa or Queen's Park for policy concessions. The experience of regions such as Baden-Württemburg and others of the "Four Motors of Europe" underscores the central importance of fostering strong ties among indigenous companies, so that productive and flexible links between producers can be formed more easily.

In short, there are many **non-market** advantages to industrial agglomeration that are not currently being exploited.

Despite these weaknesses, the Toronto region still offers the best potential of any part of the country for successful, territorially based growth. It possesses a large and diversified collection of economic activities, a reasonably strong base of private and public services, well-developed infrastructure, a good educational system, and a large, high-quality labour pool.[48] It therefore ought to be thought of as the principal resource on which to fashion sustained economic growth in Ontario. But it will need some help if we are to exploit fully the potential it offers.

Although Toronto's economic health is simply too important to be left to its own devices, there is no federal or provincial recognition of the key role to be played by major economic agglomerations such as the Toronto region in shaping the economic path of the country as a whole.[49]

In the current policy situation, those with the greatest interest and potential ability to foster conditions of successful growth (local and regional governments) face the greatest constraints on action and the poorest access to fiscal resources. At the same time, more senior levels of government possess the lion's share of legislative and fiscal powers, but lack awareness of the importance of approaching economic development policy from a territorially based perspective.

Even free-market advocates such as Rugman and D'Cruz admit that there is an important role for governments to play here: "Very seldom indeed has government paid attention to the simultaneous development of the supporting industries and infrastructure, or to the upgrading of physical and human resources".[50]

It is beyond the scope of this paper to formulate a complete strategy for the economic development of the Toronto region. However, a few prescriptive comments are in order. Perhaps the most important implication of the preceding analysis is that government functions must be integrated at all levels to bear on the development potential of regional economies like Toronto's. A fully rounded strategy cannot be limited to industrial incentives or land-use initiatives alone, but must also include:

- **education and training policies** (a federal and provincial responsibility) that are sensitive to the needs of the regional economy;

- **transportation policies** (now split between the Province and Metro) that recognize the central importance of circulation systems in fostering development of intra-regional buyer-supplier networks; and

- **industry and technology policies** (now split between the federal and provincial levels) oriented to the formation of regional clusters of inter-related and mutually supportive businesses, in which key product and process technologies are developed locally.

There is even a conceivable role for harmonizing trade and competition policies (exclusively a federal domain) with the needs of the regional economy. The FTA is ravaging many small Canadian firms in the region that lack the scale required to compete successfully against U.S. companies that long ago reached production levels enabling them to benefit from economies of scale. It makes little sense to unleash this kind of competition on Canadian producers without having first nurtured their development in the ways described above, and in the absence of appropriate adjustment mechanisms to help them and their employees respond to such change.

By preserving industrial land and through other initiatives, local and regional governments have undoubtedly played an important role in stemming the tide of losses of key businesses from the region. However, they can play a larger role than the traditional one, which has been oriented to dealing with firms more or less in isolation from one another.

Local government's great strength lies in its potential as an agent fostering development of a common regional identity amongst business, labour, and other members of the community. It can act as the catalyst to promote a mindset in which firms and workers see the value of sectoral-regional organizations of production, and begin to appreciate the merits of strong intra-regional production links. The City of Toronto's industry liaison councils are certainly a step in the right direction, but we need to go much further.

I am proposing here a fundamental realignment in the way we think about the nature of economic growth and the public sector's role in promoting it — an approach in which the geography of economic activity is of central importance. If the analysis presented in this paper is accurate, there are important reasons why Ottawa ought to take the issue of regionally-based growth seriously as it plots the nation's competitive strategy into the 1990s and beyond. Recognizing Toronto's regional economy as one of Canada's most important national assets is crucial in any such strategy.

NOTES

[1] See James T. Lemon, *Toronto Since 1918: An Illustrated History*. Toronto: James Lorimer, 1985, statistical appendix.

[2] Ibid.

[3] These figures come from Armine Yalnizyan, "Reflections on Full Employment", Social Planning Council of Metropolitan Toronto, February 1991, Tables 1, 2, and 3.

[4] These figures also come from Yalnizyan, 1991. For similar statistics for the City of Toronto, see City of Toronto Planning and Development Department, "Central Area Trends Report", Cityplan '91 Report No. 5, February 1990, p. 44.

[5] There is some debate about whether or not this decentralization trend presents a problem for economic development policy. The loss of manufacturing activities from Metro certainly has implications for the regional municipality's tax base but, so long as the migrating firms remain within the regional commutershed (and transportation systems remain effective), workers residing in the central part of the region should still be able to retain their jobs with a firm after its decentralization. Indeed, recent case studies of decentralizing firms by the Economic Development Division of Metro Toronto reveal that in some instances, the new plant location was actually closer to their workers' residences than the old location. Nevertheless, when one recalls the considerable size of the CMA itself, one would be surprised to find that no employee dislocation occurred in cases where the distance separating old and new locations was very large. Furthermore, the average cost and time spent commuting to work may also increase significantly for some workers — not a trivial problem.

[6] The 1971 figures are from City of Toronto Planning and Development Department, "Toronto Economic Trends", March 1985. The 1990 figures are from unpublished figures from Metro's Employment Survey, made available by the City of Toronto Planning and Development Department.

[7] Unpublished figures, Annual Employment Surveys, Metro Toronto Planning Department.

[8] See City of Toronto Planning and Development Department, "Central Area Trends Report", Cityplan '91 Report No. 5, February 1990, for a thorough discussion of the changing dynamics of the regional office market.

[9] On the superior stimulative powers of manufacturing compared to services in the regional economy, see the papers (particularly those by Harrison and Gertler) in Michael Lyons, ed., *Manufacturing Matters*. Industrial Development Institute of Metropolitan Toronto, 1988.

[10] See Madelaine Drohan, "Jobless rate hits 10.2 per cent", *Globe and Mail*, March 9, 1991; "Modest recovery forecast", *Globe and Mail*, March 20, 1991; and Gail Lem, "Slight rise seen for capital spending", *Globe and Mail*, February 28, 1991.

[11] For a more complete presentation of this argument, see Meric S. Gertler, "The service economy: prospects for urban growth and employment", in M. Lyons, ed., *Manufacturing Matters*, pp. 68-80.

[12] For one version of this argument, see Arthur Younger, "The medium term economic outlook for the Toronto CMA", Cityplan '91 Report No. 16, City of Toronto Planning and Development Department, December 1990.

[13] One report earlier this year documented the loss of over 20,500 jobs in Ontario in 1990 due to "indefinite and permanent layoffs" resulting from plant closings. See James Daw, "Shutdowns claim 20,554 jobs", *Toronto Star*, January 16, 1991. Figures from the Canadian Labour Congress estimate that about two-thirds of all job losses in manufacturing can be attributed directly to permanent plant shutdowns, compared with only one-quarter in the 1981-82 recession. See Casey Mahood, "The Golden Horseshoe's getting rusty", Globe and Mail, June 7, 1991. Another study concluded that roughly 75 percent of manufacturing job losses during the last two years can be linked to the FTA. See Virginia Galt, "226,000 jobs lost since pact, CLC says", *Globe and Mail*, December 15, 1990.

[14] See Lucy White, "Caterpillar closing cuts 350 workers", *Financial Post*, April 15, 1991; and Keith Damsell, "Caterpillar firm on the move", *Globe and Mail*, April 29, 1991.

[15] See for example, Alan Rugman and Joseph D'Cruz, "Fast Forward: Improving Canada's International Competitiveness", report prepared for Kodak Canada, Inc., March 1991.

[16] See Marian Stinson, "Manufacturing takes a beating", *Globe and Mail*, April 19, 1991, and Drew Fagan, "Recession batters Ontario", *Globe and Mail*, April 10, 1991.

[17] Statistics Canada, "Manufacturing industries of Canada: sub-provincial areas, 1986", Catalogue 31-209, October 1990.

[18] I am grateful to Dave Robertson of the CAW for providing useful information on these developments.

[19] On these developments, see John Holmes, "The globalization of production and the future of Canada's mature industries: the case of the automotive industry" in D. Drache and M.S. Gertler, eds., *The New Era of Global Competition*. Montreal: McGill-Queen's University Press, 1991, pp. 153-180.

[20] See Jonathan Morris, "A Japanization of Canadian industry?", in D. Drache and M.S. Gertler, eds., *The New Era of Global Competition*. Montreal: McGill-Queen's University Press, 1991, pp. 206-228.

[21] See Maureen Farrow, "Reshaping Canada to compete", Coopers and Lybrand Report, March 1991.

[22] See Oliver Bertin, "Campbell shrinks under free trade", *Globe and Mail*, November 29, 1990; Edward Clifford, "Campbell's stock, like its soup, good but pricey", *Globe and Mail*, March 28, 1991; and Oliver Bertin, "Campbell to buy back Canadian shares", *Globe and Mail*, March 29, 1991.

[23] See Oliver Bertin, "Food giants cut back: Canada Packers closing beef plants", *Globe and Mail*, April 26, 1991.

[24] The figures come from unpublished tables produced from the Metro Toronto Planning Department's Annual Employment Surveys. Peter Tomlinson and David Peters ("Workplace closings, the Free Trade Agreement and the City's economic development strategy", report to the City of Toronto Economic Development Committee, January 16, 1989) note that some of the decline between 1986 and 1987 was due to a one-time reclassification of certain employment to the office sector. However, even the 1987 employment level of 8,165 was nearly 1,900 jobs higher than the 1990 total.

[25] See Olver Bertin, "Kellogg restructuring means 340 jobs lost", *Globe and Mail*, April26,1991.

[26] See Tomlinson and Peters, "Workplace closings...". These predictions may yet come true, based on recent pronouncements from Carla Hills, the head trade negotiator for the United States.

[27] For a discussion of the Globe's strategy, including the use of satellite transmission technology, see Mark Hepworth, "The geography of technological change in the information economy", *Regional Studies*, vol. 20, no. 5, 1986, pp. 407-424.

[28] See John Partridge, "Southam cuts 50 to 60 more jobs", *Globe and Mail*, May 1, 1991.

[29] Statistics Canada catalogue 31-209 (1986), October 1990.

[30] Rugman and D'Cruz, p. 42.

[31] See Edward Clifford, "Northern Telecom not just a ho-hum blue chip", and Lawrence Surtees, "Northern Telecom profit up", *Globe and Mail*, April 24, 1991.

[32] See Hepworth, "The geography of technological change...".

[33] The latest of these is General Dynamics Corp., which announced planned layoffs of 27,000 from its current workforce of 90,000 over the next four years. See "Military firm cuts 27,000 jobs", *Financial Post*, May 2, 1991.

[34] See M. Farrow, "Reshaping Canada to Compete".

[35] See John Holmes, "The globalization of production...", in Drache and Gertler, eds., *The New Era of Global Competition*.

[36] This argument is most eloquently made by Lester C. Thurow, "Regional transformation and the service activities", in L. Rodwin and H. Sazanami, eds., *Deindustrialization and Regional Economic Transformation: The Experience of the United States*. Boston: Unwin Hyman, 1989.

[37] I draw these arguments from the very fine discussion paper recently published by the City of Toronto. See Peter Viducis, "Financial Services Discussion Paper", Cityplan '91 Report No. 17, City of Toronto Planning and Development Department, January 1991.

[38] P. Viducis, "Financial services discussion paper".

[39] Unpublished figures, Tourism Research and Information Section, Tourism Policy Branch, Ontario Ministry of Tourism and Recreation, 1991.

[40] This analysis relies upon trends noted in Ontario Visitor Trend Analysis, Ontario Ministry of Tourism and Recreation, October 1990.

[41] The Toronto figures come from unpublished statistics from Metro's Employment Survey. The Ontario and national percentages are taken from Table 4 of this paper.

[42] Unpublished figures on workplace closures/reductions, Economic Development Division, City of Toronto Planning and Development Department, 1990.

[43] See André Picard, "Quebec's economic heart needs stimulant", *Globe and Mail*, March 28, 1991; and Robert Meinbardis, "Côté's warning", *Financial Times of Canada*, April 15, 1991.

[44] For one forecast incorporating such assumptions, see Arthur Younger's "The medium term economic outlook for the Toronto CMA".

[45] See for example, Michael Piore and Charles Sabel, *The Second Industrial Divide: Possibilities for Prosperity*. New York: Basic Books, 1984. For examples of the recent work of economic geographers in this field, see Allen J. Scott, *New Industrial Spaces*. London: Pion, 1989; and Michael Storper and Richard Walker, *The Capitalist Imperative: Territory, Technology, and Industrial Growth*. Oxford: Basil Blackwell, 1989.

[46] Michael Porter, *The Competitive Advantage of Nations*. New York: Free Press, 1990.

[47] Rugman and D'Cruz, "Fast forward...", pp. 33-44. It should be noted that of these ten clusters, only three are based on manufacturing. The third manufacturing cluster is based on aerospace and advanced transportation around Montreal.

[48] However, forecasters do note from demographic projections that labour force growth could slow significantly in the medium-term, as the region's population ages. While this may have the salutary effect of lowering unemployment rates, it will also put greater pressure on labour supply. See A. Younger's "The medium term economic outlook...".

[49] As but one indication of this attitude in higher government circles, it was discovered during the course of research for this paper that Statistics Canada has recently discontinued the gathering and publication of key data on economic activity and production at the level of Census Metropolitan Area, making it all the more difficult to monitor and intervene on behalf of the economic health of city-regions.

[50] "Fast forward...", p. 34.